Weekly Economic Review

Housing market softens

Housing Starts

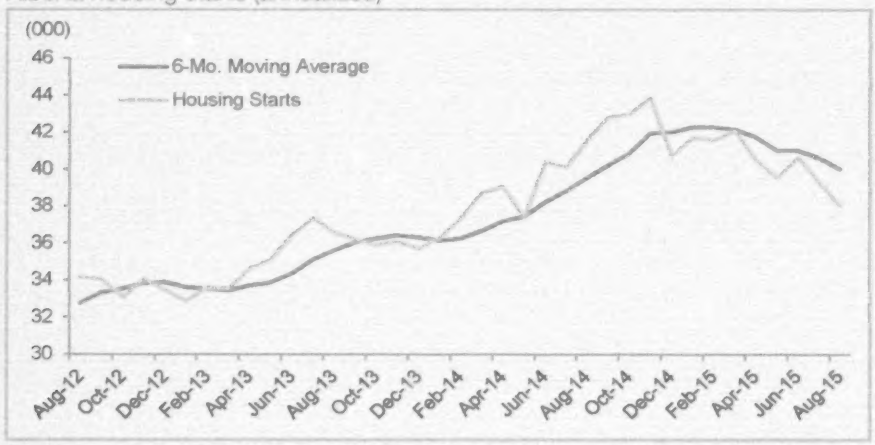
More slowing

After a sharp decline in July, Alberta housing starts drifted lower in August (Chart 1), falling by 0.7% to 35,611 (annualized), down 19% from August 2014. Year-to-date, starts were down 2.8%, due to ongoing weakness in signal unit starts, which were down 17% year-over-year (y/y) and 20% year-to-date. Multifamily starts had been strong earlier in the year, but were down 2.9% y/y in August. They remain up 14% year-to-date. There has been significant regional variation as Calgary starts were down sharply year-to-date, while Edmonton starts have been exceptionally high.

Canadian housing starts jumped to 216,924 (annual rate), up 11% y/y. Due to this increase, starts year-to-date are nearly equal to the same period last year.

Chart 1: Housing starts continue to weaken

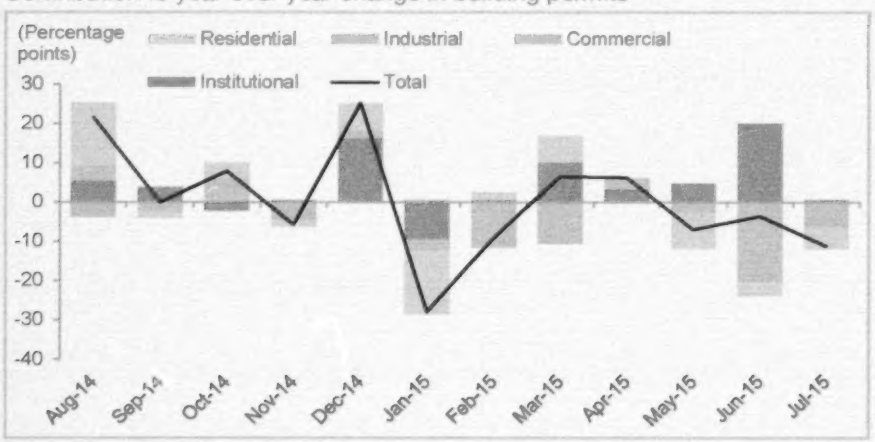
Alberta housing starts (annualized)



Source: Canada Mortgage and Housing Corporation

Chart 2: Broad-based weakness in Alberta building permits

Contribution to year-over-year change in building permits



Source: Statistics Canada

Building Permits

Permits are down from last year

Alberta municipalities issued $1.5 billion-worth of building permits in July, down 11% from July 2014. The year-over-year declines were broad based (Chart 2), with residential permits down 10% and non-residential permits down 13%. An increase in apartment permits was more than offset by a 33% y/y decline in permits for single-detached homes. Among non-residential buildings, only governmental and institutional were up from last year, with substantial declines in both industrial and commercial permits. Year-to-date, Alberta building permits were down 7.5%, as a 12% decline in Calgary more than offset a 4.5% increase in Edmonton.

New Housing Price Index

Price growth softens in Alberta

Alberta's New Housing Price Index (NHPI) continued to slow in July, with year-over-year growth of only 0.3%, despite land costs increasing 1.7% y/y. Calgary's NHPI is responsible for most of the softening in price growth (Chart 3), up only 0.3% y/y. Edmonton prices outpaced Calgary for the first time since May 2012, with growth of 0.4% y/y.

Canada's new housing price levels continue to rise, with NHPI growth of 1.3% y/y. Growth was led by Ontario at 2.7% y/y, followed by British Columbia at 1.3% y/y.

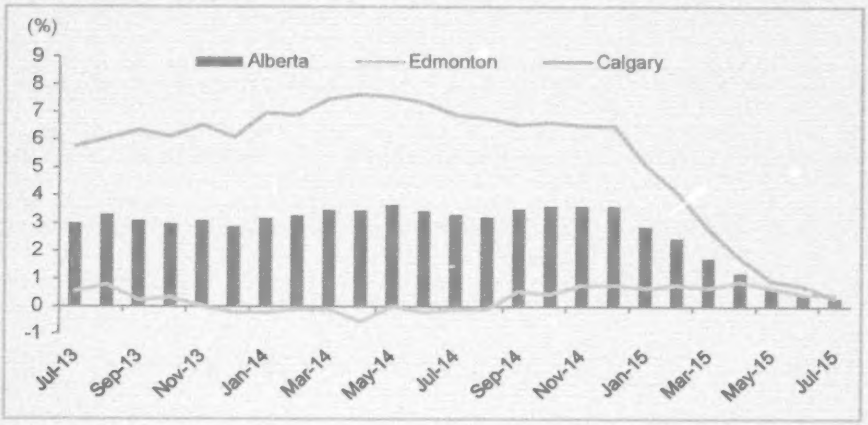
Oil and Gas Production

Bouncing back

Alberta oil production bounced back above 2014 levels in June, increasing 6.6% y/y, as disruptions from maintenance shut-downs and fire-related evacuations were resolved. Most of the monthly improvement was in synthetic, though production was still down 0.4% y/y. Bitumen production has been elevated, increasing 21% y/y, as new production continues to come online despite low oil prices. The same is not true for conventional production, which has been falling steadily, down 11% y/y in June (Chart 4). Natural gas production was up 5.5% y/y, but remains down year-to-date.

Chart 3: House price growth in Calgary has dropped off dramatically

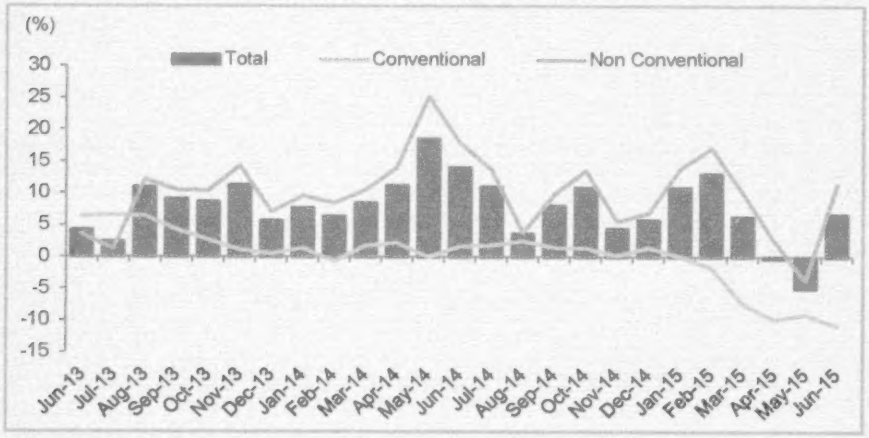
New Housing Price Index



Source: Statistics Canada

Chart 4: Conventional oil production is falling in Alberta

Year-over-year change in Alberta crude oil produciton



Source: Statistics Canada

Bank of Canada

Holding steady

The Bank of Canada kept its target interest rate unchanged at 0.5%, citing that previous cuts are "working their way through the Canadian economy". The Bank's outlook for the economy was mixed, noting a pickup in US bound exports coupled with robust household spending that are both helping to mitigate the energy sector downturn. The Bank noted heightened uncertainty surrounding China's growth trajectory and the resultant financial market volatility and depressed commodity prices.

National Balance Sheets

Wealth growth slows

Household net worth in the second quarter of 2015 grew by 0.9% to $238,200 per household. Net-worth was boosted by 1.8% growth in non-financial assets like real estate as well as a 0.5% gain in the value of financial assets. However, household wealth growth was the lowest since the second quarter of 2013 and the 0.5% appreciation in financial assets was a marked slowdown from the 4.6% uptick in the previous quarter. Household debt (1.8%) rose faster than disposable income (0.8%), raising the debt to income ratio by 1.6 percentage points to 164.6%. This was the largest increase in household debt-to-disposable income since 2009.

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.